

**RECORDING REQUESTED BY
AND WHEN RECORDED RETURN TO:**

Schramm & Raddue
Post Office Box 1260
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Santa Barbara, California 93101
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(Space above this line for Recorder's use only)

**DECLARATION OF
COVENANTS, CONDITIONS AND RESTRICTIONS
ESTABLISHING A PLAN OF CONDOMINIUM OWNERSHIP
FOR
EUCALYPTUS GROVE**

INW#1/EGCCR
1/14/85

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FOR
EUCALYPTUS GROVE**

THIS DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS ESTABLISHING A PLAN OF CONDOMINIUM OWNERSHIP is made on the date hereinafter set forth by THE GROVES, a joint venture comprised of SANTA BARBARA CAPITAL, a partnership, and FINANCIAL PROPERTIES DEVELOPMENT, a joint venture.

R E C I T A L S:

A. Declarant is the owner of real property located in an unincorporated area of Santa Barbara County, California, described in Exhibit A (herein, the "real property"), upon which Declarant proposes to construct the improvements more particularly described in Exhibit B.

B. Declarant desires to establish a plan for condominium ownership of the improvements situated on the real property.

D E C L A R A T I O N:

NOW, THEREFORE, Declarant hereby declares that the real property is and shall continue to be held, conveyed, hypothecated, encumbered, leased, rented, used and occupied subject to the following limitations, restrictions, easements, covenants, conditions, liens and charges, all of which are declared and agreed to be in furtherance of a plan of condominium ownership as described in Sections 1350 through

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through 1360 of the California Civil Code for the subdivision, improvement, protection, maintenance and sale of condominiums within the real property, and all of which are declared and agreed to be for the purpose of enhancing, maintaining and protecting the value and attractiveness of the real property. All of the limitations, restrictions, easements, covenants, conditions, liens and charges set forth herein shall run with the land, shall be binding on and shall inure to the benefit of all parties having or acquiring any right, title or interest in the real property, and shall be binding on and inure to the benefit of the successors in interest of such parties.

Declarant further declares its express intention that this Declaration satisfy the requirements of Section 1355 of the California Civil Code.

ARTICLE I

DEFINITIONS

As used herein, the following words and phrases shall have the meanings set forth below:

1.1 "Articles" mean the Association's Articles of Incorporation, as they may be amended from time to time.

1.2 "Association" means the EUCALYPTUS GROVE HOME-OWNERS ASSOCIATION, a California nonprofit mutual benefit corporation, its successors and assigns.

1.3 "Board" means the Board of Directors of the Association.

1.4 "Bylaws" mean the Association's Bylaws as they may be amended from time to time.

1.5 "Common Area" means the entire development except all units as defined in this Declaration or as shown on the Condominium Plan.

1.6 "Condominium" means an estate in real property as defined in Section 783 of the California Civil Code, consisting of an undivided interest as a tenant-in-common in the Common Area of the development, together with a fee interest in a unit shown and described on the condominium plan.

1.7 The "condominium plan" means the condominium plan for Eucalyptus Grove Condominiums recorded in the Office of

the County Recorder of Santa Barbara County pursuant California Civil Code Section 1351, and any amendments thereto.

1.8 The "Declarant" means The Groves, a joint venture, and its successors and assigns if such successors and assigns are designated as a declarant in a written instrument executed and acknowledged by Declarant or a successor to Declarant.

1.9 The "development" means the entire parcel of real property, divided or to be divided into Condominiums, including all structures and improvements on the real property. The development is a statutory condominium "project" as defined in California Civil Code Section 1350(3).

1.10 The "Governing Instruments" means, collectively, this Declaration, the Articles, Bylaws and the Association Rules, as they may be amended from time to time.

1.11 A "member" means every person or entity who holds a membership in the Association.

1.12 An "owner" means each person or entity holding a record ownership interest in a Condominium, including Declarant. "Owner" shall not include persons or entities who hold an interest in a Condominium merely as security for the performance of an obligation or as a contract purchaser.

1.13 A "permanent resident" means any individual who uses and occupies a Condominium for either sixty (60) or more consecutive days or for a total of one hundred and twenty (120) or more days in any consecutive twelve (12)-month period.

1.14 "Secured lender" means the beneficiary or mortgagee, and its successors and assigns, of a trust deed or mortgage encumbering a Condominium in the development.

1.15 "Trust deed" means any written security interest in a Condominium included in the development given by an owner thereof which may be foreclosed upon by judicial foreclosure or by private power of sale, and shall include any mortgage given by an Owner.

1.16 A "unit" means the elements of a Condominium that are not owned in common with the other owners of Condominiums in the development; such units and their respective elements are more particularly described in Exhibit B, and the boundaries of each unit are shown and described on the condominium plan.

ARTICLE II

PROPERTY RIGHTS AND COMMON INTERESTS

2.1 Ownership of Condominium; Easements. Ownership of each Condominium within the development shall include a unit, the respective undivided interest in the Common Area as described in Exhibit B (which undivided interest cannot be altered or changed as long as the prohibition against severability of component interests in a Condominium remains in effect as provided in this Declaration), a membership in the Association, and any exclusive or non-exclusive easements appurtenant to such unit over the Common Area as described in this Declaration or the deed to the unit.

2.2 Boundaries of Units. In interpreting deeds and plans, the existing physical boundaries of a unit or of a unit reconstructed in substantial accordance with the original plans shall be conclusively presumed to be its boundaries, rather than the description expressed in the deed or plans, regardless of minor variance between boundaries shown on the plans or in the deed and those of the building and regardless of settling or lateral movement of the building. Any reference to a unit made in this Declaration, in the condominium plan, in any deed or elsewhere shall be assumed to be made to the unit as a whole, including each of its component elements and to any exclusive easements appurtenant to such unit over the Common Area.

2.3 Non-Exclusive Easements of Enjoyment, Etc. Every owner of a Condominium shall have a non-exclusive easement of use and enjoyment in, to and throughout the Common Area of the development and for ingress, egress and support over and through the Common Area, which shall be appurtenant to and shall pass with the title to every unit. However, such non-exclusive easements shall be subordinate to, and shall not interfere with, exclusive easements appurtenant to units over the Common Area, if any.

2.4 Rights in Common Area. The non-exclusive easements appurtenant to each unit shall be subject to the following rights and restrictions in favor of the Association and its members:

2.4.1 The right of the Association to limit the number of guests, and to adopt Association rules and regulations governing the use and enjoyment of the Common Area (herein the "Association Rules").

2.4.2 The right of the Association to charge reasonable admission and other fees to persons other than

owners and their tenants or contract purchasers for the use of any unassigned parking spaces and any recreational facility situated on the Common Area.

2.4.3 The right of the Association to borrow money to improve the Common Area.

2.4.4 The right of the Association to assign, rent, license or otherwise designate and control use of unassigned parking spaces within the Common Area (other than those portions subject to exclusive licenses, if any).

2.4.5 The right of Declarant or its designees to enter on the development to make repairs and remedy construction defects provided that entry does not interfere with the use of any occupied unit unless authorized by the unit owner.

2.4.6 The right of the Association and its agents to enter any unit to perform its obligations under this Declaration, including obligations with respect to construction, maintenance or repair for the benefit of the Common Area or the owners in common, or to make necessary repairs that the unit owner has failed to perform. The right shall be immediate in case of an emergency originating in or threatening such unit, and the obligation may be performed whether or not the owner is present.

2.4.7 The right of any owner or his representatives to enter the unit of any other owner to perform permissible installations, alterations or repairs to mechanical or electrical services if requests for entry are made in advance and such entry is at a time convenient to the owner whose unit is being entered. In case of emergency such right of entry shall be immediate.

2.5 Rights of Contract Purchasers and Tenants. Any owner may delegate his rights of use and enjoyment in the development, including any recreational facilities, to the members of his family, his guests and invitees, and to such other persons as may be permitted by the By-laws and the Association Rules, subject however, to the provisions of the Governing Instruments.

2.5.1 Neither an owner of a Condominium who has sold his Condominium to a contract purchaser or rented it, nor the members of his family his guests and invitees shall be entitled to use and enjoy the recreational facilities of the development while the owner's Condominium is occupied by such contract purchaser or tenant. Instead, the contract purchaser or tenant, while occupying such Condominium, shall

be entitled to use and enjoy the recreational facilities of the development and can delegate the rights of use and enjoyment in the same manner as if such contract purchaser or tenant were the owner of such Condominium during the period of his occupancy.

2.5.2 Each owner shall notify the Secretary of the Association of the names of any contract purchaser or tenant of such owner's Condominium. Each owner, contract purchaser or tenant shall also notify the Secretary of the Association of the names of all persons to whom such owner, contract purchaser, or tenant has delegated any rights of use and enjoyment in the development and the relationship that each such person bears to the owner, contract purchaser or tenant.

2.5.3 Any delegated rights of use and enjoyment are subject to suspension to the same extent as the rights of owners.

2.6 Minor Encroachments. If any portion of the Common Area encroaches on any unit or if any portion of a unit encroaches on the Common Area, regardless of the cause, or if any structure containing a unit is partially or totally destroyed and then rebuilt and any encroachment results, a valid easement shall exist for such encroachment and for the maintenance of it as long as it remains and all units and the Common Area shall be subject to such easements.

2.7 Easements Granted by Association. The Association shall have the power to grant and convey to any third party easements and rights-of-way in, on, over or under the Common Area for the purpose of constructing, erecting, operating or maintaining lines, cables, wires, conduits, or other devices for electricity, cable television, power, telephone and other communication systems, public sewers, storm water drains and pipes, water systems, sprinkling systems, water, heating and gas lines or pipes, and any similar public or quasi-public improvements or facilities, and each purchaser, by accepting the deed to a unit, expressly consents to such easement. However, no such easement may be granted if it would interfere with the use, occupancy or enjoyment by any owner of his unit, any exclusive easements over any Common Area appurtenant to the unit, or the recreational facilities of the development.

ARTICLE III

RESTRICTIONS ON USE

3.1 Residential Use. Except as expressly provided by this Section 3.1, units in the development shall be used only for residential purposes.

3.1.1 Rights Reserved by Declarant. Notwithstanding the provisions of Section 3.1, above, Declarant shall be entitled to use the following portions of the development as models and sales offices for the purpose of marketing and selling Condominium units in the development for a period of five (5) years after the date on which this Declaration is recorded, or until Declarant has sold all of the units owned by it, if sooner:

3.1.1.1 Any units in the development owned by Declarant; and

3.1.2 Leases of Units. Nothing in this Declaration shall prevent an owner from leasing or renting his Condominium. However, any lease or rental agreement shall be in writing and shall provide: (a) that the tenant shall abide by and be subject to all provisions of the Governing Instruments; (b) that the tenant has been given a copy of this Declaration; and (c) that the tenant's failure to comply with the provisions of the Governing Instruments shall be a default under the lease or rental agreement.

3.2 Commercial Use. Except as otherwise provided in Section 3.1 of this Declaration, no part of the development shall be used or authorized for use in any way, directly or indirectly, for any business, commercial, manufacturing, mercantile, storage, vending or other such non-residential purpose.

3.3 Maintenance of Units. Each owner of a Condominium shall be responsible for maintaining his unit, including the equipment and fixtures in the unit and its interior walls, ceilings, windows and doors, in a clean, sanitary, workable and attractive condition. However, each owner shall have complete discretion as to the choice of furniture, furnishings and interior decorating, subject to those restrictions set forth in this Declaration. Each owner also shall be responsible for the repair, replacement and cleaning of the windows and glass in his unit, both exterior and interior. Except to the extent otherwise provided in this Declaration, each owner shall be responsible for maintaining any exclusive easements appurtenant to his unit over the Common Area in a clean, neat and serviceable condition. It shall be the responsibility of each owner promptly to give notice to the

Association of any condition or defect affecting his Condominium or any exclusive easement appurtenant thereto requiring repair which is the responsibility of the Association to maintain, and each owner shall be liable for any additional damage and the costs of repair resulting from the failure of the owner promptly to give such notice.

3.4 Occupancy Restriction. No more than two (2) individuals shall occupy any one-bedroom unit as permanent residents. No more than four (4) individuals shall occupy any two-bedroom unit as permanent residents. The maximum occupancy for a three-bedroom unit shall be five (5) individuals. If the birth of an infant causes a violation of the occupancy restriction set forth herein, then the enforcement of this restriction shall be suspended for a period of not more than twelve (12) months from the date of birth in order to permit the owner or occupant adequate time to secure a new place of residence.

3.5 Offensive Conduct; Nuisances. No noxious or offensive activities, including but not limited to repair of automobiles or other motorized vehicles shall be conducted on or within the development. Nothing shall be done on or within the development that may be or may become an annoyance or nuisance to the residents of the development, or that in any way interferes with the quiet enjoyment of occupants of Condominiums. Unless otherwise permitted by the Association, no owner shall serve food or beverages, cook, barbeque, or engage in similar activities, except within such owner's unit and those portions of the Common Area subject to exclusive easements appurtenant to such owner's unit.

3.6 Parking and Vehicles. The development contains striped, paved parking spaces, which are intended to accommodate the needs of all of the owners.

3.6.1 Unless individual parking spaces are subsequently assigned to the owners or to the units by the Board, parking shall be in accordance with the following requirements, which shall be strictly enforced by the Board:

A. No owner shall use more than two (2) parking spaces in the development without the approval of the Board.

B. No parking space shall be enclosed or used as a storage space, hobby facility or for any other use or facility which would interfere with its use for the accommodation of vehicles.

C. No boats, motorcycles, campers, trailers, and other recreational vehicles of any type (all of which

are referred to herein as "a recreational vehicle") may be kept or parked in the development. ^

D. All driveways and parking spaces shall be maintained in a neat and orderly condition.

E. No owner or resident shall permit overnight guests or frequent visitors to the property to park in any manner which violates the provisions of this Section.

F. Upon the sale by the Declarant of all of the units in the development as well as those in Phases Two and Three as described in Exhibit C hereto upon their annexation to the development, the Board shall assign one covered motor vehicle parking space to each unit.

3.7 Signs. No sign of any kind shall be displayed to the public view on or from any Condominium or the Common Area without the approval of the Board, except (a) ^such signs as may be used by the Declarant or its designees for a period of five (5) years from the date of recordation of this Declaration, or until all of the units owned by Declarant have been sold, if sooner, for the purpose of marketing and selling Condominiums within the development and for the purpose of developing, selling and improving real property owned by Declarant or its designees and situated in the vicinity of the development; (b) signs on the Common Area adjacent to the parking areas stating that the parking is private for the use of the owners and guests of owners and that violators will be towed; (c) one sign at the entrance identifying the development, and (d) one sign at the entrance depicting the location of buildings within the development.

3.8 Antennae, External Fixtures, Etc. No television or radio poles, antennae, flag poles or other external fixtures other than those originally installed by Declarant or approved by the Board and any replacements thereof shall be constructed, erected or maintained on or within the Common Area or on structures within the development. No wiring, insulation, air-conditioning or other machinery or equipment other than that originally installed by Declarant or approved by the Board and any replacements thereof shall be constructed, erected or maintained on or within the Common Area, including any structures within the development; provided, however, that each owner shall have the right to maintain television or radio antennae within completely enclosed portions of his unit.

3.9 Fences, Etc. No fences, awnings, ornamental screens, screen doors, sunshades or walls of any nature shall be erected or maintained on or around any portion of any structure or elsewhere within the development except those that are installed in accordance with the original construction of the development, and any replacements thereof, without the authorization and approval of the Board.

3.10 Animals. No animals, reptiles, rodents, birds, livestock or poultry shall be kept in any Condominium or elsewhere within the development except that fish kept in a household aquarium, domesticated, not more than two (2) caged birds and not more than one (1) dog or cat weighing twenty-five (25) pounds or less may be kept as household pets within any unit, if they are not kept, bred or raised for commercial purposes and do not cause any odor or noise that would unreasonably disturb the quiet use and enjoyment of other occupants in the development.

3.11 Restricted Use of Recreation Vehicles, Etc. No boat, truck trailer, camper, recreational vehicle or tent shall be used for living accommodations while located on the development. However, trailers or temporary structures for use incidental to the construction or improvement of the development or the initial sales of units or incidental to the initial construction of property owned by Declarant or Declarant's designees and situated in the vicinity of the development may be maintained within the development, but shall be promptly removed on completion of all such construction or improvements and all initial sales.

3.12 Trash Disposal. Trash, garbage or other waste shall be kept only in sanitary containers. No owner of a Condominium shall permit or cause any trash or refuse to be kept on any portion of the development other than in the receptacles customarily used for it, which shall be located only in places specifically designated for such purposes except on the scheduled day for trash pickup.

3.13 Outside Drying and Laundering. No exterior clothesline shall be erected or maintained and there shall be no exterior drying or laundering of clothes on balconies, patios, porches or other areas.

3.14 Window Coverings. Windows in all condominium units may be covered only by curtains or drapes and may not be painted or covered by foil or other similar materials. No blankets, sheets, towels, or other similar materials may be used as window coverings or curtains, and no window shades shall be used as window coverings without the prior written consent of the Board.

3.15 Structural Alterations. No structural alterations to the interior of any unit shall be made and no plumbing or electrical work within any bearing or common walls shall be made by any owner without the prior written consent of the Board.

3.16 Exterior Alterations. No owner shall make any alterations or modifications to the exterior of the buildings, fences, railings or walls situated within the development, whether or not at such owner's expense, without the prior written consent of the Board and the holder of any mortgage or deed of trust then of record whose interest may be affected.

3.17 Compliance with Laws, Etc. Nothing shall be done or kept in any unit or in the Common Area that might increase the rate of, or cause the cancellation of, insurance on the development, or any portion of the development, without the prior written consent of the Board. No owner shall permit anything to be done or kept in his unit that violates any law, ordinance, statute, rule or regulation of any local, county, state or federal body. No owner shall allow furniture, furnishings or other personalty belonging to such owner to remain within any portion of the Common Area other than portions subject to exclusive easements over Common Area appurtenant to such owner's unit except as may otherwise be permitted by the Board.

3.18 Oil Drilling. No oil drilling, oil development operations, oil refining, quarrying or mining operations of any kind shall be permitted on or in the development, and no oil wells, tanks, tunnels or mineral excavations or shafts shall be permitted on the surface of the development or within five hundred (500) feet below the surface of the development. No derrick or other structure designed for use in boring for water, oil or natural gas shall be erected, maintained or permitted on the development.

3.19 Indemnification. Each owner shall be liable to the remaining owners for any damage to the Common Area or equipment owned by the Association that may be sustained by reason of the negligence of that owner, members of his family, his contract purchasers, tenants, guests or invitees, including, without limitation, the deductible portion of any insurance coverage insuring against injury or damage to property for which such owner or the Association may otherwise be insured. Each owner, by acceptance of the deed to a unit, agrees for himself and for the members of his family, his contract purchasers, tenants, guests or invitees, to indemnify each of the remaining owners, and to hold such remaining owners harmless from, and to defend them against, any claim of any person for personal injury or property

damage occurring within the unit of that particular owner and any exclusive easements over the Common Area appurtenant to the unit, unless the injury or damage occurred by reason of the negligence of any other owner or person temporarily visiting in said Condominium or portion of the Common Area subject to an exclusive easement appurtenant to the unit or is fully covered by insurance.

3.20 Owner's Obligation for Taxes. To the extent allowed by law, all units, including their pro rata undivided interest in the Common Area and the membership of an owner in the Association, shall be separately assessed and taxed so that all taxes, assessments and charges which may become liens prior to first mortgages under local law shall relate only to the individual units and not to the development as a whole.

3.20.1 Each owner shall be obligated to pay any taxes or assessments assessed by the county assessor or other governmental authority against his Condominium and against his personal property.

3.20.2 Until such time as real property taxes have been segregated by the Santa Barbara County Assessor, they shall be paid by the respective owners of Condominiums. The proportionate share of the taxes for a particular Condominium shall be determined by dividing the initial sales price of the Condominium by the total initial sales price of all Condominiums within the development; for the purpose of making the proration required hereunder, the initial sales price of unsold units owned by the Declarant shall be deemed to be the prices at which such units are then being offered for sale. If and to the extent that taxes are not paid by any owner of a Condominium and are allowed to become delinquent, they shall be collected from the delinquent owner by the Association.

3.21 Future Construction. Nothing in this Declaration shall limit the right of Declarant, its successors and assigns, to complete construction of improvements to the Common Area and to units owned by Declarant or to alter them or to construct additional improvements as Declarant deems advisable before completion and sale of the entire development. The rights of Declarant in this Declaration may be assigned by Declarant to any successor (to all or any part of any Declarant's interest in the development), as developer, by an express assignment incorporated in a recorded deed that transfers an interest to a successor. Neither Declarant nor its successors and assigns may make alterations to the development which constitutes a substantial change thereto without the prior written consent of the Real Estate Commission pursuant to Business and Professions Code §11018.7.

3.22 Enforcement. The failure of any owner to comply with any provision of this Declaration or the Articles or By-laws shall give rise to a cause of action in favor of the Association and any aggrieved owner for the recovery of damages or for injunctive relief, or both.

ARTICLE IV

THE ASSOCIATION

4.1 Formation. The Association is a nonprofit mutual benefit corporation formed under the laws of California. On the recording of the first Condominium sale to an owner, the Association shall be charged with the duties and invested with the powers set forth in the Articles, the Bylaws and this Declaration.

4.2 Membership in the Association

4.2.1 Eligibility. Each owner of a Condominium, including Declarant, shall be a member of the Association. No owner shall hold more than one membership in the Association even though such owner may own, or own an interest in, more than one Condominium. Ownership of a Condominium or of an interest in a unit shall be the sole qualification for membership in the Association. Each owner shall remain a member of the Association until his ownership or ownership interest in all Condominiums in the development ceases, at which time his membership in the Association shall automatically cease. Persons or entities who hold an interest in a Condominium merely as security for performance of an obligation shall not be eligible for membership in the Association.

4.2.2 Transfer of Membership. The Association membership of each person or entity who owns, or owns an interest in, one or more Condominiums shall be appurtenant to each such Condominium, and shall not be assigned, transferred, pledged, hypothecated, conveyed or alienated in any way except upon a transfer of title to each such Condominium or interest in it and then only to the transferee. Any attempt to make a prohibited transfer shall be void. Any transfer of title to a Condominium or interest in it shall operate automatically to transfer the appurtenant membership rights in the Association to the new owner.

4.2.3 Members' Rights and Duties. Each member shall have the rights, duties and obligations set forth in the Governing Instruments.

4.3 Voting Rights of Members

4.3.1 Voting Classes. The Association initially shall have two (2) classes of voting members:

4.3.1.1 Class A: Class A members are all owners of Condominiums, other than Declarant. Each Class A member shall be entitled to one (1) vote for each Condominium owned by such member.

4.3.1.2 Class B: The Class B member shall be the Declarant, who shall be entitled to three (3) votes for each Condominium owned. The Class B membership shall forever cease and be converted to Class A membership on the second anniversary of the original issuance of the most recently issued Public Report for a phase of the development or when the total votes outstanding in the Class A membership equal the total votes outstanding in Class B membership, whichever shall first occur. This date shall be not later than the fourth anniversary of the original issuance of the Public Report for the first phase of the development.

4.3.2 Approval by Classes. As long as two classes of members in the Association exist, no action by the Association that must have the prior approval of the Association members shall be deemed approved by the members unless approved by the appropriate percentage of both classes of members (except the enforcement of bonded obligations as provided in Section 5.5.7 of this Declaration). Upon the first to occur of the conditions specified in Section 4.3.1.2, above, actions requiring the prior approval of the Association shall require the approval only of the Class A members.

4.3.3 Approval of Members. Except as otherwise provided in this Declaration, the Articles or the Bylaws of the Association, all matters requiring the approval of members shall be deemed approved if members holding a majority of the total voting rights assent to them by written consent as provided in the Bylaws or if approved by a majority vote of a quorum of members at any regular or special meeting held in accordance with the Bylaws.

4.3.4 Joint Owner Votes. The voting rights for a Condominium may not be cast on a fractional basis. If the joint owners of a Condominium are unable to agree among themselves as to how their voting rights shall be cast with respect to a particular matter, they shall forfeit their vote on that matter. If any joint owner exercises the voting rights of a particular Condominium, it will be conclusively presumed for all purposes that such owner was acting with the authority and consent of all other owners of the same

Condominium. If more than one (1) person or entity exercises the voting rights for a particular Condominium, their votes shall not be counted and shall be deemed void.

4.3.5 Cumulative Voting. Election to and removal from the Board of Directors of the Association of two or more directors shall be by cumulative voting, as defined in California Corporations Code Section 7615(b). An individual director shall not be removed unless the number of votes in favor of removal satisfies the requirements of the California Corporations Code, or unless the entire Board is removed by a vote of the Association members.

4.4 Meetings of the Members

4.4.1 Organizational Meeting. An organizational meeting shall be held within forty-five (45) days after the closing of the sale of that Condominium which represents the fifty-first (51st) percentile interest authorized for sale under the final subdivision public report issued for the development by the California Commissioner of Real Estate, but in no case later than six (6) months after the closing and recording of the sale of the first Condominium within the development. All offices of the Board of Directors shall be filled at the organizational meeting.

4.4.2 Annual Meeting. Regular meetings of members of the Association shall be held at least once in each calendar year at a time and place as prescribed in the Bylaws. Any mortgagee, through its designated representative, shall be entitled to attend any such meeting but except as provided in Section 12.10, below, shall not be entitled to vote at the meeting.

4.4.3 Notice. Special meetings may be called as provided for in the Bylaws. Written notice of all members' meetings, regular or special, shall be given as provided in the By-Laws to all owners and to any secured lender who has requested in writing that such notice be sent to it.

4.4.4 Quorum. The presence at any meeting in person or by proxy of members entitled to cast at least fifty percent (50%) of the total votes of all members of the Association shall constitute a quorum.

4.4.4.1 If any meeting cannot be held because a quorum is not present, members representing a majority of the votes present, either in person or by proxy, may adjourn the meeting to a time not less than five (5) days nor more than thirty (30) days from the date the original meeting was called, at which adjourned meeting the quorum requirement shall be at least twenty-five percent (25%) of the total votes.

4.4.4.2 If any such adjourned meeting is actually attended, in person or by proxy, by members holding or representing less than one-third (1/3) of the voting power of the Association membership, then the only matters that may be voted upon at such meeting are those matters, notice of the general nature of which is given to the parties in the manner specified in Section 4.4.3 not less than ten (10) nor more than ninety (90) days before the date of such meeting to each member who, on the record date for notice of the meeting, is entitled to vote thereat.

4.5 Financial Statements and Budgets

4.5.1 The Association shall prepare, or cause to be prepared, a budget containing all of the information required by Section 10.2.1 of the Bylaws of the Association, and shall distribute a copy of such budget to each member not less than sixty (60) days before the beginning of each fiscal year.

4.5.2 A balance sheet for the Association as of the last day of the month closest in time to six (6) months from the date of closing of the first sale of a Lot within the development (the "accounting date"), together with an operating statement for the period commencing with the date of closing of the first sale of a Lot within the development and ending as of the first accounting date, shall be distributed to each of the members of the Association within sixty (60) days after such accounting date. The operating statement shall include a schedule of assessments received or receivable, itemized by Lot number and by the name of the person or entity assessed.

4.5.3 The Association shall prepare, or cause to be prepared each year, an annual report containing all of the information required by Section 10.2.3 of the Bylaws of the Association, and shall distribute a copy of such annual report to each member within one hundred twenty (120) days after the end of the Association's fiscal year.

4.5.4 Copies of each budget and annual report for the Association shall be mailed to any secured lender who has requested in writing that such copies be sent to it. Each owner of a Lot shall be responsible for supplying to prospective purchasers the most recent financial statements of the Association.

4.6 Inspection of Books and Records

4.6.1 Any membership register, books of account and minutes of meetings of the members, the Board and the committees of the Board of the Association shall be made

available for inspection and copying by any member of the Association, or his duly-appointed representative, or any mortgagee, at any reasonable time and for a purpose reasonably related to his interest as a member, at the office of the Association or at such other place within the development as the Board prescribes, in accordance with reasonable rules which the Board shall prescribe for such purposes.

4.6.2 Every director of the Association shall have the absolute right at any reasonable time to inspect all books, records and documents of the Association and the physical properties owned or controlled by the Association. The right of inspection by a director includes the right to make extracts and copies of documents.

ARTICLE V

ACTION BY THE ASSOCIATION

5.1 Association Management. Except as to matters requiring the approval of members as set forth in this Declaration, the Articles or the By-laws, the affairs of the Association shall be conducted by the Board and such officers as the Board may elect or appoint. Such election or appointment shall be in accordance with this Declaration and the Bylaws and their amendments.

5.2 Limitations on Authority of Board. Except with the vote or written assent of members of the Association holding fifty-one percent (51%) of the voting rights of each class of members, the Board shall not have authority to:

5.2.1 Incur aggregate expenditures for capital improvements to the Common Area in any fiscal year in excess of five percent (5%) of the budgeted gross expenses of the Association for that fiscal year; or

5.2.2 Sell during any fiscal year property of the Association having an aggregate fair market value greater than five percent (5%) of the budgeted gross expenses of the Association for that fiscal year; or

5.2.3 Pay compensation to members of the Board or to officers of the Association for services performed in the conduct of the Association's business. However, the Board may cause a member of the Board or an officer to be reimbursed for expenses incurred in carrying on the business of the Association; or

5.2.4 Enter into contracts with third parties for the furnishing of goods or services to the Common Area or to the Association having a term in excess of one (1)

year except as expressly provided by this Declaration for (a) contracts with public utility companies; (b) prepaid casualty and public liability policies; and (c) a management contract whose terms have been approved by the Veterans or the Federal Housing Administration; or

5.2.5 Fill any vacancy on the Board created by the removal of a director.

5.3 Specially Elected Directors. As long as a majority of the voting power of the Association resides in the Declarant, or as long as there are two (2) outstanding classes of membership in the Association, the election of twenty percent (20%) of the directors, but in no event less than one (1) of the directors (the "Representative-Director") shall be determined at a special election held immediately before the regular election of directors, as set forth in the By-laws of the Association.

5.3.1 At the duly constituted meeting of members at which any Representative-Director is to be elected, nominations for such director shall be made from the floor. When nominations have been closed, the special election shall take place. Declarant shall not have the right to participate in or vote in such special election (although Declarant or its representatives may be present), and those candidates receiving the highest number of votes, up to the number of Representative-Directors to be elected, shall be deemed to be the Representative-Directors. Except for the initial term of the first Representative-Director who is elected by the members, the term of office of any Representative-Director shall be the same as that of any other director.

5.3.2 Unless members (excluding Declarant) holding a majority of all voting rights (excluding any voting rights held by Declarant) assent by vote or written consent, such Representative-Directors cannot be removed. In case of the death, resignation or removal of a Representative-Director, his successor shall be elected at a special meeting of members, and the provisions set forth in this Section respecting the election of a Representative-Director shall apply as to the election of a successor.

5.4 Powers of Association. The Association, through the Board, shall have all the powers of a corporation organized under the California Non-Profit Mutual Benefit Corporation Law, subject only to such limitations on the exercise of such powers as are set forth in the Articles, the Bylaws and this Declaration. The Association shall have the power to do any lawful thing that may be authorized, required, or permitted to be done under this Declaration, the Articles and the Bylaws, and to do and perform any act that may be

necessary or proper for or incidental to, the exercise of any of the express powers of the Association, including without limitation the following:

5.4.1 Assessments. The Association shall have the power to establish, fix and and levy assessments against the owners of Condominiums and to enforce payment of such assessments in accordance with the provisions of Article VI of this Declaration, subject, however, to the approval of the members as set forth therein.

5.4.2 Discipline. The Association, in its own name and on its own behalf, or on behalf of any owner who consents, may commence and maintain actions for damages, to enforce any provisions of the Governing Instruments or to enjoin any actual or threatened breach thereof. In addition, the Association may suspend the voting rights, may suspend use privileges of the Common Area or may assess monetary penalties against any owner or other person entitled to exercise such rights or privileges for any violation of the Governing Instruments.

5.4.2.1 Upon a recommendation by the President or any Vice President of the Association that an owner should be subject to a fine or suspension, notice of the recommendation and the basis therefor shall be given to such owner in writing. Such owner or other person may appeal the proposed fine or suspension by filing a written appeal with the Board within fifteen (15) days after receiving notice of the proposed discipline. If the owner appeals the proposed discipline then the fine or suspension shall be held in abeyance unless and until it is approved by the Board members at a regular or special meeting thereof at which all Board members are present. The owner or other person to be fined or suspended may appear, be represented by counsel and be heard at the meeting, and enforcement of the recommended discipline shall be suspended until such hearing is conducted. Should the owner fail to appeal from the recommended fine or suspension within the appeal period provided herein, the recommended fine or suspension shall become effective immediately upon the expiration of the notice period.

5.4.2.2 No suspension of use privileges imposed hereunder may exceed a period of thirty (30) days for any one violation and no fine may exceed One Hundred Dollars (\$100.00) for any one violation.

5.4.2.3 Except as provided in this Section 5.4.2, the Association does not have the power or authority to cause a forfeiture or abridgement of an owner's

right to the full use and enjoyment of such owner's Condominium if the owner does not comply with provisions of the Governing Instruments except when the loss or forfeiture is the result of a court judgment or an arbitration decision or a foreclosure or sale under a power of sale based on failure of the owner to pay assessments levied by the Association.

5.4.3 Association Rules. The Association shall have the power to adopt, amend and repeal its rules as it deems reasonable governing the use of the Common Area, including, but not limited to, any recreational facilities and private streets, by the owner or his family, guests, invitees or by any contract purchaser or tenants or their respective family members, guests or invitees. However, the Association Rules shall not be inconsistent with or materially alter any other provisions of this Declaration, the Articles or the Bylaws. A copy of the Association Rules as adopted, amended or repealed, shall be mailed or otherwise delivered to each owner and a copy shall be posted in a conspicuous place within the development. Should there be any conflict between any Association Rules and any other provisions of this Declaration or the Articles or the Bylaws of the Association, the provisions of the Association Rules shall be deemed to be superseded to the extent of any such inconsistency.

5.4.4 Parking Regulations. The Association shall have the authority to establish rules, regulations and penalties, and the power to impose fines or towing procedures for recurrent violations of the parking regulations which it adopts or those provided in Section 3.6.1.

5.4.5 Delegation of Powers. The Association acting by and through the Board may delegate its powers, duties and responsibilities to committees or employees, including a professional management agent engaged for the purpose of managing the development. Any agreement for professional management of the development shall be terminable by either party with or without cause and without payment of a termination fee on not more than thirty (30) days' prior written notice. The term of any such agreement shall not exceed one (1) year, but may be renewed by the Board from year to year. If the development is professionally maintained or managed, the Board will not terminate professional management and assume self-management of the development without the consent of a majority of the mortgagees holding first trust deeds encumbering units in the development.

5.5 Duties of the Association. In addition to the powers delegated to it by its Articles or Bylaws and without limiting their generality, the Association, acting by and through its Board of Directors, shall conduct all business

affairs of common interest to all owners and shall perform each of the following duties:

5.5.1 Operation and Maintenance of Common Area. To operate, maintain and otherwise manage or provide for the operation, maintenance and management of the Common Area, and all its facilities, improvements and landscaping, including any private driveways or streets, erosion control facilities and any other property acquired by the Association, including personal property of the Association, in a first-class condition and in a good state of repair. The duty of the Association to maintain the Common Area shall include the maintenance of all open space. The Association may enter into contracts for services or materials for the benefit of the Association or the Common Area, including contracts with Declarant. Except as otherwise provided herein, the term of any such service contract shall not exceed one (1) year and shall be terminable by either party with or without cause and without payment of a termination fee upon not more than thirty (30) days' written notice.

5.5.2 Maintenance of Buildings and Other Improvements. To provide exterior maintenance of each residence building, patio, balcony, fence, wall and exterior stairway in or appurtenant to all units, which maintenance shall include and be limited to painting, maintaining, repairing and replacing roofs, gutters, downspouts and exterior surfaces, when and if required by reason of normal wear and tear or deterioration. Such maintenance shall not include any action with respect to glass surfaces, air conditioning units, landscaping within private patio or balcony areas of each such unit, if any, patio covers or other additions built or maintained on or within such private patio or balcony areas by an owner, and shall not include maintenance, repairs or replacements required by reason of the negligent or willful act of an owner, his family, guests or invitees, or the failure of an owner promptly to notify the Association of a condition or defect requiring repair by the Association. Such excluded maintenance, repairs and replacements shall be the responsibility of each owner; provided, however, that if an owner shall fail to perform such maintenance or make such repairs or replacements as are his responsibility, then, upon the vote of a majority of the members of the Board and after not less than ten (10) days' notice to such owner, the Association shall have the right (but not the obligation) to enter into or upon the unit of such owner and provide such maintenance or make such repairs or replacements, and add the cost thereof to the assessments chargeable to such owner.

5.5.3 Taxes and Assessments. To pay all real and personal property taxes and assessments and all other

taxes levied against the Association, the Common Area, or personal property owned by the Association. Such taxes and assessments may be contested or compromised by the Association provided that they are paid or that a bond insuring payment is posted before the sale or the disposition of any property to satisfy the payment of such taxes.

5.5.4 Water and Other Utilities. The Association shall acquire, provide and pay for water, garbage disposal, refuse and rubbish collection, electrical, gas and other necessary utility services for the Common Area. The Association shall only provide such utilities as are not separately furnished and billed to the individual condominiums. The term of any contract to supply any of the listed services shall not exceed one (1) year or, if the supplier is a regulated public utility, the shortest term for which the supplier will contract at the applicable regulated rate.

5.5.5 Insurance. To obtain from and maintain with reputable insurance companies the insurance described in Article VIII of this Declaration.

5.5.6 Enforcement of Restrictions and Rules. To perform such other acts, whether or not expressly authorized by this Declaration, that may be reasonably necessary to enforce any of the provisions of the Governing Instruments of the Association.

5.5.7 Enforcement of Bonded Obligations. When the California Real Estate Commissioner issues a final subdivision public report for any phase of the development, if any of the Common Area improvements in the development have not been completed, and if the Association is the obligee under a bond or other arrangement ("bond") to secure performance of a commitment of the Declarant or its successors or assigns to complete such Common Area improvements, then the Board shall consider and vote on the question of action by the Association to enforce the obligations under the bond with respect to any improvement for which a notice of completion has not been filed within sixty (60) days after the completion date specified for that improvement in the "planned construction statement" appended to the bond, or within thirty (30) days after the expiration of any extension of the completion date approved by the Association in writing.

5.5.7.1 If the Board fails to consider and vote on an action to enforce the obligations under any such bond, or if the Board decides not to initiate action to enforce the obligations under the bond, then on the petition

in writing to the Board signed by members of the Association representing not less than five percent (5%) of the total voting power of the Association, the Board shall call a special meeting of members for the purpose of voting to override the decision of the Board not to initiate action to enforce the obligations under the bond, or the failure of the Board to consider and vote on the question.

5.5.7.2 The meeting shall be called by the Board by fixing a date not less than thirty-five (35) days nor more than forty-five (45) days after receipt by the Board of any such petition and by giving written notice to all owners entitled to vote in the manner provided in the Bylaws for notices of special meetings of members of the Association. At the meeting, the vote in person or by proxy of a majority of the owners entitled to vote (other than Declarant) in favor of taking action to enforce the obligations under the bond shall be deemed to be the decision of the Association and the Board shall then implement such decision by initiating and pursuing appropriate action in the name of the Association.

5.5.8 Information to Owners. The Association shall provide owners with a copy of each of the Governing Instruments, and with information concerning delinquent assessments, late charges, attorneys' fees and similar charges, upon request by the owner upon payment of a reasonable charge in an amount fixed by the Board.

5.6 Limitation on Liability. No member of the Board, or of any committee of the Association, or any officer of the Association, or any manager or Declarant, or any agent of Declarant, shall be personally liable to any owner or to any other party, including the Association, for any damage, loss, injury or prejudice suffered or claimed on the account of any act, omission, error or negligence of any such person or entity if such person or entity has, on the basis of such information as may be possessed by him or it, acted in good faith without willful or intentional misconduct.

ARTICLE VI

ASSESSMENTS

6.1 Determination of Assessments

6.1.1 Regular Assessments. Not more than sixty (60) nor less than thirty (30) days before the beginning of each fiscal year the Board shall estimate the total amount of funds necessary to defray the common expenses of the Association for the next fiscal year. The amount so approved by a

majority vote of the Board shall become the regular assessment for such year, except that the Board may not increase the amount of the regular assessment for any fiscal year of the Association by more than twenty percent (20%) of the amount of the prior year's regular assessment (except the first such year if it should be less than twelve (12) months) without the approval by vote or the written consent of a majority of the voting power of the Association residing in members other than the Declarant. The individual assessments for each Condominium shall be determined as provided in Section 6.5.

6.1.1.1 The regular assessments shall include adequate reserve funds for contingencies and for maintenance, repairs and replacement of the Common Area improvements that must be replaced on a periodic basis sufficient to satisfy the requirements of any mortgagee.

6.1.1.2 Unless the Association is exempt from federal or state taxes, all reserves shall be accounted for as contributions to the capital of the Association and as trust funds segregated from the regular income of the Association or in any other manner authorized by law or regulations of the Internal Revenue Service and the California Franchise Tax Board that will prevent such funds from being taxed as income of the Association.

6.1.2 Special Assessments. If the Board determines that the estimated total amount of funds necessary to defray the common expenses of the Association for a given fiscal year is or will become inadequate to meet expenses for any reason (including, but not limited to, unanticipated delinquencies, costs of construction, unexpected repairs or replacements of capital improvements on the Common Area) the Board shall determine the approximate amount necessary to defray such expenses, and if the amount is approved by a majority vote of the Board it shall become a special assessment. The Board may, in its discretion, pro rate such special assessment over the remaining months of the fiscal year or levy the assessment immediately against each Condominium. Unless exempt from federal or state income taxation, all proceeds from any special assessment shall be segregated and deposited into a special account and shall be used solely for the purposes for which it was levied or it shall be otherwise handled and used in a manner authorized by law or regulations of the Internal Revenue Service and the California Franchise Tax Board in order to avoid, if possible, its taxation as income of the Association.

6.1.3 Limitation Respecting Special Assessments. Any special assessment in excess of five percent (5%) of the budgeted gross expense of the Association for the fiscal

year in which a special assessment is levied shall require approval by vote or the written consent of a majority of the voting power of the Association residing in members other than the Declarant, except in case of a special assessment against an owner as a remedy utilized by the Board to reimburse the Association for costs incurred in bringing the member or his Condominium into compliance with the provisions of this Declaration.

6.2 Rate of Assessment

6.2.1 Except as otherwise expressly provided elsewhere in this Declaration, regular and special assessments shall be fixed at a uniform rate for all Condominiums by dividing the total amount of the assessment by the total number of Condominiums subject to the assessment.

6.3 Assessment Period. The regular assessment period shall commence on January 1 of each year and shall terminate on December 31 of such year, and regular assessment shall be payable in equal monthly installments unless the Board adopts some other basis for collection. However, the initial regular assessment period shall commence on the first day of the calendar month following the date on which the sale of the first Condominium to a purchaser is closed and recorded (the "initiation date") and shall terminate on December 31 of the year in which the initial sale is closed and recorded. The first regular assessment and all special assessment shall be adjusted according to the number of months remaining in the fiscal year and shall be payable in equal monthly installments unless the Board adopts some other basis for collection.

6.4 Notice of Assessment Installment Due Dates. A ten (10) day prior written notice of each annual regular assessment and each special assessment, specifying the due dates for the payment of any assessments payable in installments, shall be given to any owner of every Condominium subject to assessment. The due dates for the payment of installments normally shall be the first day of each month unless some other due date is established by the Board. Each installment of regular assessments and special assessments shall become delinquent if not paid within thirty (30) days after its due date. There shall accrue with each delinquent installment a late charge in an amount equal to the greater of (a) Ten Dollars (\$10.00) or (b) the sum of (i) 1.5% on so much of the delinquent outstanding balance as does not exceed \$1,000 plus (ii) 1.0% on so much of the delinquent outstanding balance as exceeds \$1,000. Any delinquent balance together with such late charge shall bear interest at the rate of ten percent (10%) per annum, calculated from the due date to and including the date full payment is received by the Association.

6.5 Purpose of Assessments. The assessments levied by the Association shall be used exclusively to promote the recreation, health, safety and welfare of the members of the Association, the improvement, replacement, repair, operation and maintenance of the Common Area and the performance of the duties of the Association as set forth in this Declaration.

6.6 Duty to Pay. The Declarant, for each Condominium owned by it in the development that is expressly made subject to assessment as set forth in this Article VI, and each purchaser of a Condominium, by his acceptance of a deed to a Condominium unit, covenants and agrees, for each Condominium owned, to pay to the Association such regular and special assessments, as are established, made and collected as provided in this Declaration.

6.7 Personal Obligations. Each assessment or installment, together with any late charge, interest, collection costs and reasonable attorneys' fees, shall be the personal obligation of the person or entity who was an owner of a unit at the time such assessment or installment became due and payable. If more than one person or entity was the owner of a Condominium, the personal obligation to pay such assessment or installment respecting such Condominium shall be both joint and several. The personal obligation for delinquent assessments or installments shall not pass to an owner's successors in interest unless expressly assumed by them. No owner of a Condominium may exempt himself from the payment of assessments or installments by waiver of the use or enjoyment of all or any portion of the Common Area or by waiver of the use or enjoyment or by abandonment of his Condominium.

6.8 Estoppel Certificate. The Board or the Association manager, on not less than twenty (20) days prior written request, shall execute, acknowledge and deliver to the party making a request therefor a statement in writing as to the amount of delinquent assessments and information relating to penalties, attorney's fees and other charges, as provided by the governing instruments, which are applicable to member's unit as of the date the statement is issued. Any such certificate delivered pursuant to this Section 6.8 may be relied on by any prospective purchaser or mortgagee of the Condominium, but reliance on such certificate may not extend to any default not involving the payment of assessments of which the signer had no actual knowledge.

ARTICLE VII

COLLECTION OF ASSESSMENTS; LIENS

7.1 Creation of Lien. If there is a delinquency in the payment of any assessment, or an installment thereof, levied on a Condominium, any amounts that are delinquent, together with any late charge as provided by this Declaration, shall bear interest at the rate of ten percent (10%) per annum, and all costs that are incurred by the Board or its authorized representative in the collection of such amounts, including reasonable attorneys' fees, shall be a lien against such condominium on the recordation in the office of the county recorder of Santa Barbara County of a notice of assessment as provided in California Civil Code Section 1356. The notice of assessment shall not be recorded unless and until (a) the Board or its authorized representative has delivered to the delinquent owner or owners of such Condominium, not less than fifteen (15) days before the recordation of the notice of assessment, a written notice of default and a demand for payment, and (b) such owner(s) have failed to cure the delinquency within fifteen (15) days after the delivery of such notice. The lien shall expire and be void unless, within one (1) year after recordation of the notice of assessment, the Board or its authorized representative records a notice of default as provided in this Declaration or institutes judicial foreclosure proceedings.

7.2 Enforcement of Lien. The right to collect and enforce assessments is vested in the Board acting by and on behalf of the Association. The Board or its authorized representative, including any manager, may enforce the obligations of the owners to pay assessments provided for in this Declaration by commencement and maintenance of a suit at law or in equity, or the Board may foreclose by judicial proceedings or through the exercise of the power of sale pursuant to Section 7.3, below, to enforce the lien rights created hereunder. Suit to recover a money judgment for unpaid assessments together with late charges and accrued interest shall be maintainable without foreclosing or waiving the lien rights.

7.3 Notice of Default; Foreclosure. Not less than ten (10) days nor more than one (1) year after the recording of the notice of assessment, the Board or its authorized representative may record a notice of default and may cause the Condominium to be sold, either through private sale in the same manner as a sale is conducted under Sections 2924 and 2924b-2924c of the California Civil Code, or through judicial foreclosure. Any foreclosure by private sale shall be preceded by appropriate publication in the manner provided by Section 2924c of the California Civil Code.

7.3.1 The Board is authorized to appoint its attorney, any officer or director, or any title insurance company authorized to do business in California as trustee for purposes of conducting any sale under Section 2924c of the California Civil Code. If a delinquency is cured before the sale, or before completing a judicial foreclosure, the Board or its authorized representative shall cause to be recorded in the office of the County Recorder of Santa Barbara County a certificate setting forth the satisfaction of such claim and release of such lien on payment by any delinquent owner of actual expenses incurred, including reasonable attorneys' fees.

7.3.2 During the pendency of any foreclosure proceeding, whether judicial or by power of sale, the Condominium owner shall be required to pay to the Association reasonable rent for the Condominium and the Association shall be entitled to the appointment of a receiver to collect the rent. On becoming delinquent in the payment of any assessments or installments, each delinquent owner shall be deemed to have absolutely assigned all rent, issues and profits of his Condominium to the Association and shall further be deemed to have consented to the appointment of a receiver (which appointment may, at the election of the Association, be enforced by the Association by a decree of specific performance). The Association, acting on behalf of the owners, shall have the power to bid in the Condominium at foreclosure sale and to acquire, hold, lease, mortgage and convey the Condominium.

7.4 Waiver of Exemptions. Each owner, to the extent permitted by law, waives, to the extent of any liens created pursuant to this Section 7, the benefit of any homestead or exemption laws of California in effect at the time any assessment or installment becomes delinquent or any lien is imposed.

7.5 Disciplinary Assessments. The provisions of this article shall not be applicable to any special assessment imposed as a monetary penalty to discipline a member for failure to comply with the Governing Instruments or as a means of reimbursing the Association for costs it incurred in the repair of damage caused to common areas and facilities for which a member is responsible or in bringing a member or his subdivision interest into compliance with the Governing Instruments.

ARTICLE VIII

INSURANCE

8.1 Liability Insurance. The Association shall obtain and maintain comprehensive public liability insurance insuring the Association, any manager, the Declarant and the owners and occupants of Condominiums, and their respective family members, guests, invitees, and the agents and employees of each, against any liability incident to the ownership or use of the Common Area and including, if obtainable, a cross-liability or severability of interest endorsement insuring each insured against liability to each other insured. The limits of such insurance shall not be less than \$1,000,000.00 covering all claims for death, personal injury and property damage arising out of a single occurrence. Such insurance shall include coverage against water damage liability, liability for non-owned and hired automobiles, liability for property of others and any other liability or risk customarily covered with respect to projects similar in construction, location and use.

8.2 Fire and Extended Coverage Insurance. The Association also shall obtain and maintain a master or blanket policy of fire insurance in an amount not less than ninety percent (90%) coinsurance based on the full replacement cost of all of the improvements within the development. The form, content and term of the policy and its endorsements and the issuing company must be satisfactory to all institutional mortgagees. If more than one institutional mortgagee has a loan of record against the development, or any part of it, the policy and endorsements shall meet the maximum standards of the various institutional mortgagees represented in the development. The policy shall contain an agreed amount endorsement or its equivalent, an increased cost of construction endorsement or a contingent liability endorsement insuring against the operation of building laws, an extended coverage endorsement, vandalism and malicious mischief coverage, a special form endorsement and a determinable cash adjustment clause or a similar clause to permit cash settlement covering full value of the improvements in case of partial destruction and a decision not to rebuild. Subject to the provisions of this section, the policy shall be in the amounts determined by the Board. The policy shall name as insureds the Association, the owners and Declarant, as long as Declarant is the owner of any Condominiums, and all institutional mortgagees as their respective interests may appear, and may contain a loss payable endorsement in favor of the insurance trustee referred to in Section 8.4, below.

8.3 Individual Fire Insurance Limited. Except as provided in this section, no owner may separately insure his unit or any part of it against loss by fire or other casualty covered by any insurance carrier under Section 8.2, above. If any owner violates this provision, any diminution in insurance proceeds otherwise payable pursuant to the provisions of Section 8.4 that results from the existence of such other insurance will be chargeable to the owner who acquired other insurance, and the owner will be liable to the Association to the extent of any such diminution. An owner may insure his personal property against loss, and, in addition, may insure any improvements made by such owner to the real property within his unit, but such insurance shall be limited to the type and nature of coverage commonly known as tenant's improvements. All such insurance that is individually carried must contain a waiver of subrogation rights by the carrier as to other owners, the Association and the Declarant.

8.4 Insurance Trustee. Subject to the rights of the mortgagees under Sections 12.6 and 12.7 of this Declaration, all insurance proceeds payable under Sections 8.2 and 8.3, above, may be paid to a trustee, to be held and expended for the benefit of the owners, mortgagees and others, as their respective interests shall appear. Said trustee shall be a commercial bank in Santa Barbara County that agrees in writing to accept such trust. If repair or reconstruction is authorized following damage or destruction to any part of the development, the Board shall have the duty to contract for such work as provided for in this Declaration.

8.5 Other Insurance. The Board may and, if required by any mortgagee, shall purchase and maintain demolition insurance in adequate amounts to cover demolition in case of total or partial destruction and a decision not to rebuild, and a blanket policy of flood insurance. The Board also shall purchase and maintain worker's compensation insurance, to the extent that it is required by law, for all employees of the development. The Board also shall purchase and maintain fidelity bonds or insurance, containing an endorsement of coverage of any person who may serve without compensation, protecting the Association against loss of the funds contributed to the Association, in an amount sufficient to meet the requirements of any mortgagee. The Board shall purchase and maintain such insurance on personal property owned by the Association, and any other insurance that it deems necessary or that is required by any mortgagee.

8.6 Adjustment of Losses. The Board is appointed attorney-in-fact by each owner to negotiate and agree on the value and extent of any loss under any policy carried pursuant to Article VIII of this Declaration. The Board is

granted full right and authority to compromise and settle any claim or enforce any claim by legal action or otherwise and to execute releases in favor of any insurer.

8.7 Prepaid Insurance. Without the prior vote or written consent of a majority of the Association, no prepaid casualty and/or liability insurance policies having a term in excess of three (3) years or not providing for short rate cancellation by the insured shall be purchased by or in the name of the Association.

ARTICLE IX

DESTRUCTION OF IMPROVEMENTS

9.1 Proceeds Exceed 85% of Costs of Repairs. Should the improvements in the development be partially or totally destroyed, and if the available proceeds of the insurance carried pursuant to Article VIII are sufficient to cover not less than eighty-five percent (85%) of the costs of repair and reconstruction, the improvements shall be promptly rebuilt unless, within ninety (90) days from the date of destruction, members then holding at least seventy-five percent (75%) of the total voting power of each class of members present and entitled to vote, in person or by proxy, at a duly constituted meeting, determine that such repair and reconstruction should not occur. The Board shall be required to execute, acknowledge and record in the office of the Santa Barbara County Recorder, not later than one hundred twenty (120) days from the date of such destruction, a certificate declaring the intention of the members to rebuild.

9.2 Proceeds Less Than 85% of Costs of Repairs. If the proceeds of insurance are less than eighty-five percent (85%) of the costs of repair and reconstruction, repair and reconstruction may nevertheless take place, if, within ninety (90) days from the date of destruction, members then holding at least fifty-one percent (51%) of the total voting power of each class of members present and entitled to vote, in person or by proxy, at a duly constituted meeting, determine that such repair and reconstruction should occur. If repair and reconstruction is to occur, the Board shall be required to execute, acknowledge and record in the Office of the Santa Barbara County Recorder, not later than one hundred twenty (120) days from the date of such destruction, a certificate declaring the intention of the members to rebuild.

9.3 Rebuilding Procedures

9.3.1 Reconstruction Costs. If the members determine to rebuild pursuant to the provisions of Sections 9.1 or 9.2, above, then the owner of each unit located within a structure that has been totally or partially destroyed shall be obligated to contribute his proportionate share of the cost of reconstruction or restoration of the structure containing his unit, over and above any available insurance proceeds. All owners shall contribute their proportionate share of the cost of reconstruction or restoration of any portion of the Common Area not comprising the structure within which a unit is located. The proportionate share of each owner shall be equal to the ratio of the square footage of the floor area of the owner's unit to the total square footage of the floor area of all of the units in the development.

9.3.2 Dispute Procedures. If any owner fails or refuses to pay his proportionate share of the restoration costs, the Board may levy a special assessment against the Condominium of such owner which may be enforced under the lien provisions contained in Article VII or in any other manner provided in this Declaration. An owner may contest the amount of his proportionate share of the restoration costs under this Section by submitting a written objection to the Board within ten (10) days after notice to the owner of his share of such costs, supported by cost estimates or other information that the owner deems to be material, and may request a hearing before the Board at which he may be represented by counsel. Following any such hearing, the Board shall give written notice of its decision to all owners, including any recommendation for adjustments proposed to be made with respect to the liability of any owners. If such adjustments are recommended, the Board shall notice a special meeting of members for the purpose of acting on the Board's recommendation, including making further adjustments, if deemed by the members to be necessary or appropriate. All adjustments shall be affirmed or modified by a majority of the total voting power of each class of members. If no adjustments are recommended by the Board, the decision of the Board shall be final and binding on all owners, including any owner filing objections.

9.4 Rebuilding Contract. If the members determine to rebuild, the Board or its authorized representative shall obtain bids from at least two reputable contractors and shall award the repair and reconstruction work to the lowest bidder. The Board shall have the authority to enter into a written contract with the contractor for such repair and reconstruction, and the insurance proceeds held by the insurance

trustee shall be disbursed to the contractor according to the terms of the agreement. It shall be the obligation of the Board to take all steps necessary to assure the commencement and completion of authorized repair and reconstruction work at the earliest possible date.

9.5 Rebuilding Not Authorized. If the members determine not to rebuild, then, subject to the rights of mortgagees under Sections 12.6 and 12.7, below, any insurance proceeds then available for such rebuilding shall be distributed to the owner of each Condominium in the proportion that the fair market value of each unit bears to the aggregate fair market value of all units. Fair market value shall be determined by independent appraisal. The Board shall have the duty, within one hundred and twenty (120) days from the date of such destruction, to execute, acknowledge and record in the Office of the County Recorder of Santa Barbara County, a certificate declaring the intention of the members not to rebuild.

9.6 Minor Repair and Reconstruction. The Board shall have the duty to repair and reconstruct improvements, without the consent of members and irrespective of the amount of available insurance proceeds, in all cases of partial destruction when the estimated cost of repair and reconstruction does not exceed Twenty Thousand Dollars (\$20,000.00). The Board is expressly empowered to levy a special assessment for the costs of any such repairs to or reconstruction of improvements to the extent insurance proceeds are unavailable, such assessment to be levied in the manner provided by Section 9.3 and subject to the provisions of Article VI.

ARTICLE X

CONDEMNATION

10.1 Sale by Unanimous Consent. If an action for condemnation of all or a portion of the development is proposed or threatened by any governmental agency having the right of eminent domain, then, on unanimous written consent of all of the owners and after written notice to all mortgagees, the development or a portion of it may be sold.

10.2 Distribution of Proceeds of Sale. Upon any sale made pursuant to Section 10.1, above, the proceeds shall be distributed to the owner and the mortgagees of each Condominium in the proportion that the fair market value of each unit taken bears to the fair market value of all of the units so taken as determined by independent appraisal.

10.3 Distribution of Condemnation Award. If the development, or a portion of it, is not sold but is instead taken, the judgment of condemnation shall by its terms apportion the award among the owners and their respective mortgagees.

10.4 Revival of Right to Partition. Should any sale or taking pursuant to condemnation proceedings render more than fifty percent (50%) of the units in the development uninhabitable, then any owner shall have the right to seek judicial partition through legal action as provided in Article XI, below.

ARTICLE XI

PARTITION; NON-SEVERABILITY

11.1 Suspension of Partition Right. The right of partition is suspended as to the development pursuant to California Civil Code Section 1354; provided, however, that nothing in this Declaration shall prevent the partition or a division of interest between joint or common owners of an individual Condominium unit.

11.2 Revival of Partition Right. Notwithstanding the provisions of Section 11.1, above, partition of the development may occur if:

11.2.1 The Association records a certificate of intent not to rebuild the development as provided in Section 9.5, above; or

11.2.2 More than fifty percent (50%) of the units in the development are rendered uninhabitable due to a condemnation proceeding as provided in Section 10.4, above.

11.3 Proceeds of Partition. The proceeds or property resulting from any partition shall be distributed to and among the respective owners and their mortgagees as their interests appear in the proportion that the fair market value of each unit bears to the aggregate fair market value of all units. Fair market value shall be determined by independent appraisal.

11.4 Power of Attorney. Pursuant to California Civil Code Section 1355(b)(9), each owner grants the Association an irrevocable power of attorney to sell the development for the benefit of the owners when partition may be had. Exercise of such power is subject to the approval of members.

11.5 Prohibition Against Severance. An owner shall not be entitled to sever his unit in any Condominium from his membership in the Association, and shall not be entitled to sever his unit and his membership from his undivided interest in the Common Area specified in Exhibit B for any purpose. None of the component interests may be severally sold, conveyed, encumbered, hypothecated or otherwise dealt with, and any violation or attempted violation of this provision shall be void. Similarly, no owner may sever any exclusive easement appurtenant to his unit over the Common Area from his Condominium, and any attempt so to do shall be void. The suspension of this right of severability will not extend beyond the period set forth in Section 11.1, above respecting the suspension of partition. It is intended hereby to restrict severability pursuant to California Civil Code Section 1355(g).

ARTICLE XII

PROTECTION OF MORTGAGEES

12.1 Mortgage Permitted. Any owner may encumber his or her Condominium with one (1) or more mortgages or trust deeds.

12.2 Subordination of Association Liens. Any lien created or claimed under the provisions of this Declaration is expressly made subject and subordinate to the rights of any first trust deed that encumbers all or a portion of the development, or any Condominium included in the development, made in good faith and for value, and no such lien shall in any way defeat, invalidate or impair the obligation or priority of such first mortgage or trust deed unless the secured lender expressly subordinates his interest in writing to such lien.

12.3 Right to Examine Books and Records. The holders of first trust deeds may examine and copy at their own cost and expense the books and records of the Association or the development and can require the submission of such financial data concerning the Association or the development as is prepared in the ordinary course of the Association's business.

12.4 Right to Receive Financial Information. Copies of each balance sheet, operating statement, annual report and pro forma operating statement for the Association shall be mailed to any secured lender who has requested in writing that such copies be sent to it.

12.5 Insurance Policies. The form, content, and term of the fire and casualty insurance obtained by the Association

pursuant to Section 8.2, the endorsements thereto and the issuer thereof must be satisfactory to all institutional secured lenders holding first mortgages or first trust deeds on Lots in the development. If more than one institutional secured lender holds a first trust deed on the development, or any portion of it, the policy and its endorsements shall satisfy the maximum standards of the various institutional secured lenders holding such first trust deeds.

12.6 Insurance and Condemnation Proceeds. No owner or any other party shall have a priority over the right of a secured lender to insurance proceeds or condemnation awards distributed or payable to Condominium owners on account of casualty losses to or a taking of Condominiums or Common Area, and any contrary provision in the Governing Instruments shall be void. All applicable casualty and all physical loss or extended coverage insurance policies shall contain loss payable clauses acceptable to secured lenders holding first mortgages or trust deeds naming the secured lenders as additional insureds, as their interests may appear.

12.7 Application of Insurance Proceeds. Any secured lender shall have the option to apply insurance proceeds or the proceeds of a condemnation award payable with respect to a Condominium in reduction of the obligation secured by the trust deed held by such lender.

12.8 Amenities; Access. All amenities in the development (such as parking, recreation and service areas) shall be available for use by owners and all such amenities with respect to which regular or special assessments for maintenance or other purposes may be levied shall constitute Common Area. There shall be no restriction upon any owner's right of ingress to and egress from his Condominium, which right shall be perpetual and appurtenant to such Condominium.

12.9 Right to Furnish Information. Any secured lender may furnish information to the Board concerning the status of any mortgage or trust deed.

12.10 Appearance at Meetings. Any secured lender may appear (but may not vote except under the circumstances set forth in Section 12.12, below), at meetings of the members and the Board to draw attention to violations of this Declaration that have not been corrected or made the subject of remedial proceedings or assessments.

12.11 Voting Rights on Default. In case of default by the owner of any Condominium in the payment of any installment or other amount due under the terms of any first mortgage or trust deed encumbering such Condominium, or the

promissory note secured thereby, the secured lender or its representative, on giving written notice to such defaulting owner and placing of record a notice of default, shall be entitled to exercise the voting rights of such defaulting owner attributable to such Condominium at any regular or special meeting of the members held in the period during which such default continues.

12.12 Effect of Breach. No breach of any provision of this Declaration shall invalidate the lien of any mortgage or trust deed made in good faith and for value, but all of the covenants, conditions and restrictions in this Declaration shall be binding on any owner whose title is derived through foreclosure sale, trustee's sale, or otherwise.

12.13 Non-Curable Breach. Any secured lender who acquires title to a Condominium by foreclosure or by deed or assignment in lieu of foreclosure shall not be obligated to cure any breach of this Declaration that is non-curable or of a type that is not practical or feasible to cure.

12.14 Foreclosure. The foreclosure of any lien created by any provision set forth in this Declaration for assessments or installments of assessments shall not operate to affect or impair the lien of any first mortgage or first trust deed encumbering a Condominium in the development made in good faith and for value.

12.14.1 On the foreclosure of any such first mortgage or trust deed by judicial foreclosure or exercise of a power of sale (but not by deed in lieu of foreclosure), the lien for assessments or installments that have accrued up to the time of foreclosure shall be extinguished, and the foreclosure-purchaser shall take title to the Condominium free of the lien for assessments or installments that have accrued up to the time of the foreclosure. On taking title to the Condominium the foreclosure-purchaser shall only be obligated to pay assessments or other charges first becoming due and payable or levied or assessed by the Association after the foreclosure of the first mortgage or trust deed. The subsequently levied assessments or other charges may include previously unpaid assessments provided all owners, including the foreclosure-purchaser, and their successors and assigns, are required to pay their proportionate share thereof as provided in Article VII, above.

12.14.2 Except as expressly provided herein for first trust deeds, liens for past due assessments shall not be subordinate to junior mortgages and trust deeds, and no conveyance of title to a Condominium (including conveyances by deeds in lieu of foreclosure) shall relieve the

transferor or the transferee from accrued assessments or the lien securing their payment.

12.15 Loan to Facilitate Resale. Any mortgage or trust deed given to secure a loan to facilitate the resale of a Condominium acquisition by foreclosure or by a deed or assignment in lieu of foreclosure shall be deemed to be a loan made in good faith and for value and entitled to all of the rights and protections of this Article XI.

12.16 Inapplicability of First Refusal Right. No right of first refusal or similar restriction on the right of an owner to sell, transfer or otherwise convey the owner's Condominium shall be granted to the Association without the consent of any secured lender holding a mortgage or trust deed encumbering such Condominium. Any right of first refusal or option to purchase a Condominium that may be granted to the Association (or other person, firm or entity) shall not apply to any conveyance or transfer of title to such Condominium, whether voluntary or involuntary, to a secured lender which acquires title to or ownership of the Condominium pursuant to the remedies provided in its mortgage or trust deed or by reason of foreclosure of the trust deed by deed or assignment in lieu of foreclosure, or to any sale or lease of such Condominium by the secured lender.

12.17 Contracts with Declarant. Any agreement between the Association and Declarant pursuant to which the Declarant agrees to provide services shall provide for termination by either party without cause or payment of a termination fee on thirty (30) days' written notice and shall have a maximum contract term of one (1) year. Any such contract may be renewed by the Board on a year-to-year basis.

12.18 Notice to Secured Lenders

12.18.1 The Association shall give prompt written notice to any secured lender who has filed a written request for notice with the Association of the occurrence of any of the following events:

12.18.1.1 Any damage or destruction occurring within the development that affects more than five percent (5%) of the Common Area.

12.18.1.2 Any proposed or threatened condemnation proceeding affecting more than five percent (5%) of the Common Area.

12.18.1.3 Any default by an owner of a Condominium encumbered by a mortgage or trust deed held by the secured lender in the performance of such owner's obligations under the Governing Instruments which has

remained uncured for a period of sixty (60) days after notice of such default has been given to the owner by the Association.

12.18.1.4 Any action proposed to be taken by the Board or the Association which, pursuant to the provisions of Sections 12.19 and 12.20, below, requires the approval of Senior Secured Lenders.

12.18.2 Any secured lender who holds a first mortgage or trust deed encumbering a Condominium in the development and who has filed a written request for notice with the Association pursuant to this Section 12.18 is referred to herein as a Senior Secured Lender.

12.18.3 In any matter stated by this declaration to require the approval of Senior Secured Lenders, each Senior Secured Lender shall be entitled to one (1) vote for each first mortgage or trust deed held by it encumbering a Condominium in the development.

12.19 Restrictions on Certain Changes. Unless approved by the holders of two-thirds (2/3) of the votes of the Eligible Senior Secured Lenders, neither the Association nor the owners shall be entitled to engage in the following actions:

12.19.1 By act or omission seek to abandon, waive, or terminate the planned development and the scheme established by this Declaration for the architectural control of the development and the exterior maintenance thereof by the Association.

12.19.2 By act or omission to seek to abandon, partition, subdivide, encumber, sell or transfer the Common Area, except as expressly provided by statute; the granting of easements for public utilities or for other public purposes consistent with the intended use of the Common Area by the Association or the owners shall not be deemed a transfer within the meaning of this section.

12.19.3 Use casualty insurance proceeds payable on account of losses to improvements situated on Condominiums or any Common Area in the development for purposes other than the repair, replacement or reconstruction of such improvements.

12.19.4 Repair or restore the Common Area after a partial condemnation or damage due to an insured casualty otherwise than in accordance with this Declaration and the original plans and specifications for the development.

12.19.5 Terminate any existing contract for the professional management or maintenance of the development or the Common Area by an independent professional management firm for the purpose of assuming self-management by the Association.

12.20 Approval of Material Changes

12.20.1 The approval of sixty-seven percent (67%) of the voting power of the Association and fifty-one percent (51%) of Eligible Senior Secured Lenders holding first mortgages or trust deeds shall be required to adopt, amend or repeal material provisions of the Governing Instruments which establish, provide for or regulate any of the following:

12.20.1.1 The voting rights of the members of the Association.

12.20.1.2 The pro rata interest of the members for the purpose of levying assessments against an owner or his or her Condominium.

12.20.1.3 The manner of enforcement of assessment liens or the subordination of such liens to the rights of secured lenders.

12.20.1.4 The establishment of reserves for repair, maintenance or replacement of the Common Area, or any portions of the development which the Association has a duty to maintain, repair or replace.

12.20.1.5 The interests of the owners of Condominiums in the development in and their right to use and enjoy the Common Area.

12.20.1.6 The contraction of or the withdrawal of property from the development, or the expansion of the development other than pursuant to an annexation made in accordance with the provisions of Article XIII of this Declaration.

12.20.1.7 The conversion of Condominiums into Common Areas or Common Areas into Condominiums.

12.20.1.8 The imposition of any right of first refusal or similar restriction on the right of a Condominium owner to sell, transfer or otherwise convey his or her Condominium.

12.20.1.9 Any other provisions of the Governing Instruments which are expressly for the benefit of secured lenders holding first mortgages or trust deeds.

12.20.2 No amendment or alteration of the Governing Instruments shall be considered material if it is solely for the purpose of correcting technical errors or clarifying the meaning and intent of existing provisions.

12.20.3 A Senior Secured Lender who receives a written request to approve the adoption, amendment or repeal of provisions of the Governing Instruments pursuant to this section who does not deliver or post to the requesting party a negative response within thirty (30) days of such request shall be deemed to have approved such request.

ARTICLE XIII

AMENDMENTS TO DECLARATION

13.1 Amendment Before Close of First Sale. Subject to the provisions of Section 13.3, before the close of the first sale in the development to a purchaser other than Declarant, this Declaration and any amendments to it may be amended in any respect or revoked by the execution by Declarant and any mortgagee of record of an instrument amending or revoking the Declaration. The amending or revoking instrument shall make appropriate reference to this Declaration and its amendments and shall be acknowledged and recorded in the office of the Plumas County Recorder.

13.2 Amendment After Close of First Sale. Subject to the provisions of Section 13.3, after the close of the first sale of a Condominium in the development to a purchaser other than Declarant, as long as a two-class voting system remains in effect, this Declaration may be amended or revoked in any respect by the vote or written consent of the holders of not less than seventy-five percent (75%) of the voting rights of each class of members. When the two-class voting system is no longer in effect, this Declaration may be amended by the vote or written consent of 75% of the voting power of the Association which also represents a majority of the voting power of members other than Declarant. However, if any provision of this Declaration requires a greater or lesser percentage of the voting rights of any class of members in order to take affirmative or negative action under such provision, the same percentage of such class or classes of members shall be required to amend or revoke such provision. Any amendment or revocation subsequent to the close of such

first sale shall be evidenced by an instrument certified by the Secretary or other duly authorized officer of the Association and shall make appropriate reference to this Declaration and its amendments and shall be acknowledged and recorded in the Office of the Santa Barbara County Recorder.

13.3 Amendments Requiring Government Approval. If the consent or approval of any governmental authority, mortgagee or other person, firm, agency or entity is required under this Declaration with respect to any amendment or revocation of any provision of this Declaration, no such amendment or revocation shall become effective unless such consent or approval is obtained.

13.4 Compliance with Code Requirements. All amendments or revocations of this Declaration shall comply with the provisions of California Business and Professions Code Section 11018.7 to the extent such Section is applicable.

13.5 Reliance on Amendments. Any amendments made in accordance with the terms of this Declaration shall be presumed valid by anyone relying on them in good faith.

13.6 Mortgagee Conforming Amendments. It is the intent of Declarant that this Declaration and the Articles and By-laws of the Association, and the development in general, meet all requirements necessary to purchase, guarantee, insure or subsidize any mortgage of a unit in the development by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Federal Housing Administration and the Veterans' Administration. In furtherance of that intent, Declarant expressly reserves the right and shall be entitled by unilateral amendment of the Declaration as long as Declarant owns more than twenty-five percent (25%) of the Condominiums in the development to incorporate any provisions that are, in the opinion of any of the cited entities or governmental agencies, required to conform the Governing Instruments to the requirements of any of such entities or governmental agencies, including without limitation the execution on behalf of the Association of a regulatory agreement between the Association and the Federal Housing Commissioner. Any such provision shall first have been approved by the California Department of Real Estate in connection with its issuance of a final subdivision public report or amendment to it with respect to the development. Each owner of a unit and each mortgagee of a unit, by acceptance of a deed or encumbrance of a unit in the development, consents to the incorporation in this Declaration of any such provisions and to the execution of any such regulatory agreement and agrees to be bound by any such provision as if it were incorporated in this Declaration. The Board and

each owner shall take any action and shall adopt any resolutions required by Declarant or any mortgagee to conform this Declaration or the development to the requirements of any of such entities or agencies.

ARTICLE XIV

ANNEXATION OF ADDITIONAL PROPERTY

14.1 Additions to Development. Additional properties may be annexed to and become subject to this Declaration by any of the methods set forth hereinbelow.

14.2 Annexation With Approval of Association. Upon written approval of the Association pursuant to a vote of not less than two-thirds (66.67%) of the Owners or the written consent of such owners, excluding the vote or written consent of Declarant, the Owner of any property who desires to add it to the scheme of this Declaration and to subject it to the jurisdiction of the Association may file of record a Supplementary Declaration as described in Section 14.4 hereinbelow.

14.3 Annexation Without Approval of Association. All or any part of the real property described in Exhibit "C" attached hereto may be annexed from time to time, to the Project and added to the scheme of this Declaration, and subject to the jurisdiction of the Association without the assent of the Association or its Members, provided and on condition that:

14.3.1 The proposed annexation is in substantial conformance with a detailed plan of phased development submitted to the Department of Real Estate with the application for a Public Report for the first phase of the development.

14.3.2 Any annexation pursuant to this Article may be made prior to the third anniversary of the original issuance of the most recently issued Public Report for a phase in the Project.

14.3.3 A Supplementary Declaration, as described in Section 14.4 hereinbelow shall be recorded, covering the applicable portion of the real properties described in Exhibit "C."

14.4 Supplementary Declaration. The annexation of additional real property pursuant to Section 14.1, above, shall be made by a filing of record a supplementary declaration of covenants, conditions and restrictions containing at least the following:

14.4.1 A legal description of the real property to be annexed to the development;

14.4.2 A provision that the owner of each unit within the annexed real property shall automatically become a member of this Association; and

14.4.3 A declaration that the annexed real property shall become and constitute a part of the development and become encompassed within the general plan and scheme of the covenants, conditions and restrictions contained herein, and become subject to the functions, powers and jurisdiction of the Association.

14.5 Additional Provisions. Any such supplementary declaration may also contain such additions and modifications to the covenants, conditions and restrictions contained in this Declaration as may be necessary to reflect the differing character, if any, of the annexed real property, or as the owner thereof may deem appropriate in connection with the development of such annexed real property, and as are not inconsistent with the general plan and scheme of this Declaration. In no event, however, shall any such supplementary declaration revoke, modify or add to the covenants, conditions and restrictions established by this Declaration with respect to the original real property included in the development or any other previously annexed real property.

14.6 Limitation. Notwithstanding the foregoing, unless approved by the California Department of Real Estate, no Supplement may (a) cause a substantial increase in the common area or recreation area costs and expenses then being borne by Owners which was not disclosed in the final subdivision Public Report for the phase of the development in which an owner purchased his unit or (b) otherwise materially adversely affect the rights of owners, without the prior affirmative vote or written consent of at least sixty-six and two-thirds percent (66-2/3%) of each class of members entitled to vote and their first mortgagees.

14.7 Effect of Annexation. Upon annexation of any additional properties to this Declaration:

14.7.1 The real property contained in the Supplementary Declaration shall be subject to the provisions of this Declaration and to the rights and powers of the Association pursuant to the terms of this Declaration, the Articles and the By-Laws and, thereafter, all of the Owners of Condominiums in the annexed real property shall automatically become Members of the Association.

14.7.2 Assessments shall commence for all units in each phase of the development commencing on the first day of the month following the date of the first conveyance of a subdivision interest in each phase of the Development under the authority of a Public Report and shall be due and payable in accordance with the provisions of Article VI hereof. Voting rights shall commence for each unit in each phase of the Development and shall be due and payable in accordance with the provisions of Article VI hereof. Voting rights shall commence for each unit in each phase of the Development at the time assessments commence for each such unit.

14.7.3 The Owners of units in any annexed real property and in those properties which are then within the jurisdiction of the Association shall be granted non-exclusive easements over the Common Area of all phases of the Development for purposes of ingress and egress, except for those portions lying within residential buildings containing units.

14.7.4 Declarant reserves to itself, its successors and assigns, the right to conduct construction activities over all portions of the Common Areas within the jurisdiction of the Association.

14.7.5 Upon annexation of Phases Two and Three, the owners of units will all have non-exclusive easements for ingress and egress over the Common Area and will have a 1/179th interest in the Common Area.

14.8 Description of Units in Subsequent Phases. Declarant intends that the real property described in Exhibit "C", attached hereto, will be annexed to the Project in phases. Declarant intends that Phase Two of the Development will consist of 74 condominium units, and that Phase Three will consist of 45 condominium units.

ARTICLE XV

GENERAL PROVISIONS

15.1 Term of Declaration. This Declaration shall run with the land, and shall continue in full force and effect for a period of fifty (50) years from the date on which this Declaration is executed. After that time this Declaration and all covenants, conditions, restrictions and other provisions shall be of no force and effect unless extended by an instrument executed by owners of not less than two-thirds (2/3) of the Condominiums in the development and recorded in the office of the Santa Barbara County Recorder.

15.2 Headings. The headings used in this Declaration are for convenience only and are not to be used to interpret the meaning of any of the provisions of this Declaration.

15.3 Severability. The provisions of this Declaration shall be deemed independent and severable, and the invalidity or partial invalidity or unenforceability of any provision shall not invalidate any other provisions.

15.4 Cumulative Remedies. Each remedy provided for in this Declaration shall be cumulative and not exclusive. Failure to exercise any remedy provided for in this Declaration shall not, under any circumstances, be construed as a waiver thereof.

15.5 Violations as Nuisance. Every act or omission in violation of the provisions of this Declaration shall constitute a nuisance and, in addition to all other remedies herein set forth, may be abated or enjoined by any owner, any member of the Board, any manager, or the Association.

15.6 No Racial Restriction. No owner shall execute or cause to be recorded any instrument which imposes a restriction upon the sale, leasing or occupancy of his Condominium on the basis of race, color or creed.

15.7 Access to Books. Any owner may, at any reasonable time and upon reasonable notice to the Board or manager at his own expense, cause an audit or inspection to be made of the books and financial records of the Association.

15.8 Notification of Sale of Condominium. Within five (5) business days after the sale of any Condominium, the transferee shall notify the Board in writing of such sale. Such notification shall set forth the name of the transferee and his mortgagee and transferor, the street or common address of the Condominium purchased by the transferee, the transferee's and the mortgagee's mailing address, and the date of sale. Prior to the receipt of such notification, any and all communications required or permitted to be given by the Association, the Board or any manager shall be deemed to be duly made and given to the transferee if duly and timely made and given to said transferee's transferor.

15.9 Notices. Mailing addresses may be changed at any time upon written notification to the Board. Notices shall be deemed received forty-eight (48) hours after mailing if mailed to the transferee, or to his transferor if the Board has received no notice of transfer as above provided, by certified mail, return receipt requested, at the mailing address above specified. Notices shall also be deemed received twenty-four (24) hours after being sent by telegram

or upon personal delivery to any occupant of a Condominium over the age of twelve (12) years.

15.10 Number; Gender. The singular number shall include the plural and the plural the singular unless the context requires the contrary, and references to the masculine, feminine or neuter genders shall include the other genders as the context requires.

15.11 Exhibits. All exhibits referred to are attached to this Declaration and incorporated by reference.

15.12 Easements Reserved and Granted. Any easements referred to in this Declaration shall be deemed reserved or granted, or both reserved and granted, by reference to this Declaration in a deed to any Condominium.

15.13 Binding Effect. This Declaration shall inure to the benefit of and be binding on the successors and assigns of the Declarant, and the heirs, personal representatives, grantees, tenants, successors and assigns of the owners.

Declarant has executed this instrument as of the _____ day of _____, 1985.

DECLARANT:

THE GROVES, a joint venture
composed of:

SANTA BARBARA CAPITAL,
a California general partnership, by the following
general partners:

GROTENHUIS INVESTMENTS, INC.,
a California corporation

By _____
David Grotenhuis, President

KVW ENTERPRISES, INC.,
a California corporation

By _____
Karl V. Willig, President

(Signatures continue on following page.)

FINANCIAL PROPERTIES DEVELOPMENT,
a California joint venture
consisting of:

INVEST WEST FINANCIAL
CORPORATION, a California cor-
poration, a joint venture

By _____
Dale Marquis, President

FINANCIAL PROPERTIES LIMITED, a
California limited partnership,
a joint venture, by its general
partner:

INVEST WEST FINANCIAL
CORPORATION, a California cor-
poration

By _____
Dale Marquis, President

NOTARIAL ACKNOWLEDGEMENT

STATE OF CALIFORNIA)
) SS.
COUNTY OF SANTA BARBARA)

On this the _____ day of _____, 1985,
before me, the undersigned, a Notary Public in and for said
County and State, personally appeared DALE MARQUIS, proved
to me on the basis of satisfactory evidence to be one of the
partners of the partnership that executed the within instru-
ment, and acknowledged to me that such partnership executed
the same.

WITNESS my hand and official seal.

Notary Public

AND SUBORDINATION OF LIEN

EXECUTED on this _____ day of _____, 1985
at _____, State of California.

By _____ (Title)

STATE OF CALIFORNIA)
) SS.
COUNTY OF SANTA BARBARA)

WITNESS my hand and official seal.

Schramm & Raddus
ATTORNEYS AT LAW

EXHIBIT A

LEGAL DESCRIPTION OF REAL PROPERTY

All that certain real property and interests in real property situated in the unincorporated area of the County of Santa Barbara, State of California, described as follows:

Lot 1 of Tract Map 13,421 in the County of Santa Barbara, State of California, according to the map thereof filed in Book _____, Page _____ of Parcel Maps in the Office of County Recorder of said County.

An easement to use seventy (70) motor vehicle parking spaces located on Lot 4 of Tract Map 13,421 in the County of Santa Barbara, State of California, according to the map thereof filed in Book _____, Page _____ of Parcel Maps in the Office of the County Recorder of said County as provided in the "Agreement and Grant of Easement" recorded at the Office of the County Recorder, County of Santa Barbara, as Instrument No. _____ on _____, 1985.

A lease of recretaional facilities located on Lot 2 of Tract Map 13,421 in the County of Santa Barbara, State of California, according to the map thereof filed in Book _____, Page _____, of Parcel Maps in the Office of the County Recorder of said County as provided in the "Recreational Facilities Lease" recorded at the Office of the County Recorder, County of Santa Barbara as Investment No. _____, on _____, 1985.

EXHIBIT A

EXHIBIT B

DESCRIPTION OF IMPROVEMENTS

1. Declarant and its predecessors have heretofore improved the real property by constructing on it improvements containing sixty (60) dwelling units, all in accordance with plans and specifications for the development on file with the County of Santa Barbara, California.

2. The Common Area consists of all of the real property described at Exhibit A, and all of the improvements situated thereon, excepting the sixty (60) units of development, which sixty (60) units are more specifically defined in the Condominium Plan.

3. The respective interest in the Common Area to be conveyed with each unit comprises an undivided 1/60th interest.

4. Each unit shall be a separate element consisting of the space bounded by and contained within the interior surfaces of the perimeter walls, floors, ceiling, windows, and doors of each unit, together with an exclusive appurtenant easement with respect to any patio or deck adjoining the unit and extending perpendicularly outward therefrom over the Common Area. The easement for such patio or balcony is shown and defined in the Condominium Plan and shall be for the exclusive use and enjoyment of the owner of the unit to which it is appurtenant for all purposes not inconsistent with the provisions, restrictions and limitations contained in this Declaration and in the Bylaws, subject, however, to the right of the Association to service, maintain, landscape and otherwise care for the Common Area.

5. Each third floor unit has an exclusive appurtenant easement over the portion of the Common Area located immediately above the ceiling of the unit for the purpose of maintaining, servicing and replacing the furnace which serves the unit. This easement is shown and defined in the Condominium Plan and shall be for the exclusive use and enjoyment of the owner of the unit to which it is appurtenant for the limited purposes set forth above subject to the right of the Association to service, maintain and otherwise care for the Common Area.

6. For the purpose of this Declaration, the term "unit" shall mean and include all of the above described ownership interests, except when the context clearly indicates to the contrary. Each unit includes both the portions of the building and the air-space so encompassed, excepting therefrom any central services, pipes, ducts, chutes, conduits and wires, wherever located within the unit [excluding from this exception outlets within the unit].

EXHIBIT C

LEGAL DESCRIPTION OF REAL PROPERTY

TO BE ANNEXED

All that certain real property situated in the unincorporated area of the County of Santa Barbara, State of California, described as follows:

PHASE TWO:

Lot 2 of Tract Map 13,421 in the County of Santa Barbara, State of California, according to the map thereof filed in Book _____, page _____ of Parcel Maps in the office of the County Recorder of said County.

PHASE THREE

Lot 3 of Tract Map 13,421 in the County of Santa Barbara, State of California, according to the map thereof filed in Book _____, page _____ of Parcel Maps in the office of the County Recorder in said County.

EXHIBIT C